

## BEFORE

## THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of	)	
Duke Energy Ohio, Inc. for an	)	Case No. 08-709-EL-AIR
Increase in Electric Distribution Rates	)	
	)	
In the Matter of the Application of	)	
Duke Energy Ohio, Inc. for Tariff	)	Case No. 08-710-EL-ATA
Approval	)	
	)	
In the Matter of the Application of	)	
Duke Energy Ohio, Inc. for Approval	)	Case No. 08-711-EL-AAM
to Change Accounting Methods	)	
	)	
In the Matter of the Application of Duke	)	Case No. 06-718-EL-ATA
Energy Ohio, Inc for Approval of its	)	
Rider BDP, Backup Delivery Point Rider	)	

## TESTIMONY IN SUPPORT OF SETTLEMENT OF

PAUL G. SMITH

ON BEHALF OF

DUKE ENERGY OHIO, INC.

_____	Management policies, practices, and organization
_____	Operating income
_____	Rate Base
_____	Allocations
_____	Rate of return
_____	Rates and tariffs
<u>  x  </u>	Other

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PAUL G. SMITH  
ON BEHALF OF  
DUKE ENERGY OHIO, INC.**

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**INDEX**

Testimony relating to the reasonableness of a Stipulation and Recommendation entered into between DE-Ohio and other parties to these cases.

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**I.     INTRODUCTION AND PURPOSE**

1    **Q.     PLEASE STATE YOUR NAME.**

2    A.     My name is Paul G. Smith.

3    **Q.     DID YOU FILE DIRECT AND SUPPLEMENTAL TESTIMONY IN THIS**  
4           **PROCEEDING ON BEHALF OF DUKE ENERGY OHIO INC. (“DE-**  
5           **OHIO” OR “COMPANY”)?**

6    A.     Yes.

7    **Q.     WHAT IS THE PURPOSE OF YOUR TESTIMONY IN SUPPORT OF**  
8           **SETTLEMENT IN THIS PROCEEDING?**

9    A.     The purpose of my Testimony in Support of Settlement is to discuss and support  
10          the reasonableness of a Stipulation and Recommendation (“Stipulation”) entered  
11          into among DE-Ohio, the Staff of the Public Utilities Commission of Ohio  
12          (“Commission Staff”), and Parties representing all stakeholder interests who have  
13          intervened in DE-Ohio’s application for an increase in electric distribution rates,  
14          tariff approval, approval to change accounting methods, and approval of Rider  
15          BDP, which have been consolidated in the above-captioned proceedings. This  
16          testimony will demonstrate that: (1) the Stipulation is a product of serious  
17          bargaining among capable, knowledgeable parties; (2) the Stipulation does not  
18          violate any important regulatory principle or practice; and (3) the Stipulation, as a  
19          whole, will benefit customers and the public interest.

1 **II. DISCUSSION**

2 **Q. PLEASE GENERALLY DESCRIBE THE STIPULATION.**

3 A. This Stipulation, filed with the Commission on March 30, 2009, represents a  
4 resolution of all issues among the Parties relating to the Company's application  
5 for an increase in electric distribution rates. Except where specifically noted  
6 otherwise, the terms of the Stipulation adopt the recommendations made by the  
7 Staff Report of Investigation ("Staff Report") in this proceeding.

8 In summary, the Stipulating Parties agree that DE-Ohio shall increase its  
9 annual electric distribution base retail rates by \$55.3 million. Such increase will  
10 eliminate much of the non-residential subsidy as reflected in the Company's cost  
11 of service study.

12 The Stipulation provides for the creation of an uncollectible expense rider  
13 (Rider UE-ED), addresses pole attachment and conduit occupancy issues,  
14 provides a low-income credit program and a low-income all-electric energy  
15 efficiency program, and provides a mechanism for the rider recovery of Hurricane  
16 Ike storm restoration costs. The Stipulation further provides that the  
17 reasonableness and prudence of the storm restoration costs will be reviewed in a  
18 separate proceeding that will set the rider.

19 The Stipulation resolves all issues in the case and the signatory Parties  
20 represent the interests of all stakeholders, including residential and nonresidential  
21 customers, municipalities, low income interest, and the Staff of the Commission.

22 **Q. DOES THE STIPULATION REPRESENT A PRODUCT OF SERIOUS**  
23 **BARGAINING AMONG CAPABLE, KNOWLEDGEABLE PARTIES?**

1     A.     Yes. The Parties to the Stipulation include all stakeholder interests represented by  
2     parties to the case: the Commission Staff, DE-Ohio, the Office of the Ohio  
3     Consumers' Counsel ("OCC"), Ohio Partners for Affordable Energy ("OPAE"),  
4     People Working Cooperatively ("PWC"), the City of Cincinnati, the Ohio Energy  
5     Group ("OEG"), The Kroger Co., the Greater Cincinnati Health Council  
6     ("GCHC"), the telecom of Ohio, and the Ohio Cable Telecommunications  
7     Association ("OCTA"). The Parties to the Stipulation regularly participate in rate  
8     proceedings before the Commission and are knowledgeable in regulatory matters.  
9     The Parties were represented by experienced, competent counsel. Furthermore, as  
10    mentioned above, the Parties represent a broad range of interests including  
11    residential and non-residential customers, and low income customers.

12           The Commission Staff has thoroughly reviewed DE-Ohio's application  
13    and the Company has responded to hundreds of discovery requests by the Staff  
14    and Intervenors. Many of the Parties who signed the Stipulation were also  
15    involved in the Company's 2005 electric distribution rate proceeding (Case No.  
16    05-0059-EL-AIR, *et al.*) in which the current base rates were established, and  
17    such Parties are knowledgeable about DE-Ohio's electric distribution operations  
18    and rate structure. All Parties were invited to attend all of the settlement  
19    discussions regarding the rate application. A total of four settlement conferences  
20    were held, all of which occurred at the offices of the Commission. Three of the  
21    conferences also afforded an opportunity for Parties to participate by telephone if  
22    they could not attend in person. DE-Ohio held its first settlement conference on  
23    March 5, 2009. The second conference occurred on March 11, 2009. A third

1 settlement conference was held on March 17, 2009, immediately following the  
2 Commission-Ordered Pre-hearing conference. A fourth settlement conference  
3 was held on March 19, 2009. A final settlement conference was held on March  
4 23, 2009. All parties were provided notification of these conferences by email  
5 and in the case of the March 19, 2009 conference, by Commission Order setting  
6 the Prehearing conference. All of the issues in these cases were addressed during  
7 these meetings. The Stipulation is a compromise resulting from those discussions  
8 and, therefore, represents a product of capable, knowledgeable parties.

9 As a result of the Stipulation, DE-Ohio, among other things, agreed to:

- 10 • Recover substantially less revenue than it requested and supported  
11 in its rate application in these proceedings;
- 12 • Implement in a lower monthly customer charge for residential  
13 customers taking service under Rate RS than what was proposed in  
14 the Company's application and recommended in the Staff's  
15 Report;
- 16 • Create a new low-income electric distribution rate and a new  
17 weatherization program; and
- 18 • Implement a lower pole attachment charge than what the Company  
19 supported in its Application.

20 Many of the Parties, as demonstrated in their objections to the Staff  
21 Report, sought a result in which DE-Ohio would have received substantially less  
22 revenue than DE-Ohio will receive under the Stipulation. In addition, the  
23 Stipulation contains many provisions that benefit customers. Many of these

1 provisions were not part of DE-Ohio's Application such as the low income  
2 program and energy efficiency program, but, instead, were included in the  
3 Stipulation as a result of serious bargaining by the other Parties. Therefore, the  
4 Stipulation represents a reasonable compromise among the Parties.

5 **Q. DOES THE STIPULATION VIOLATE ANY IMPORTANT**  
6 **REGULATORY PRINCIPLE OR PRACTICE?**

7 A. No. The Stipulation complies with all relevant and important principles and  
8 practices. The Stipulation is fully supported by all of the evidence presented to  
9 the Commission in this case by DE-Ohio and by the other signing Parties. The  
10 Stipulation is consistent with, and strikes a reasonable balance between regulatory  
11 principles such as gradualism, allowing the Company an opportunity to earn a  
12 reasonable rate of return and designing rates which align costs with customer  
13 class causation. For example, the Stipulation calls for a lower residential  
14 customer charge and pole attachment rate than what was supported in DE-Ohio's  
15 Application and what was recommended in the Staff's Report of Investigation.  
16 The Stipulation also calls for a lower revenue requirement than what was  
17 supported in the Company's Application. Moreover, the stipulation is consistent  
18 with the principle of cost causation in rate design in that it reduces the subsidy/  
19 excess between nearly all rate classes in order to reduce or eliminate cross  
20 subsidies between classes.

21 **Q. HOW DOES THE STIPULATION COMPLY WITH IMPORTANT**  
22 **REGULATORY PRINCIPLES AND PRACTICES?**



1     A.     The Stipulation provides for an annual increase in base retail rates of \$55.3  
2           million, substantially less than the Company's fully supported proposed increase  
3           of \$86 million in its rate application. The Stipulation also provides for a  
4           mechanism to recover prudent and reasonable storm restoration costs related to  
5           Hurricane Ike. The Parties agree that such costs should be recovered via Rider  
6           DR ("Distribution Reliability"), which will allow for the termination of the charge  
7           once the costs are fully recovered thus ensuring that there will be no over-  
8           recovery. A separate proceeding will be established to determine whether or not  
9           costs incurred as a result of storm restorations were reasonable and prudent and  
10          establish the amounts to be recovered through the rider.

11    **Q.    DOES THE STIPULATION BENEFIT CONSUMERS AND THE PUBLIC**  
12       **INTEREST?**

13    A.     Yes. The Stipulation provides numerous significant benefits across all customer  
14           groups. First, customers will experience a substantially lower base rate increase  
15           than DE-Ohio supported in its rate application. DE-Ohio sought an \$86 million  
16           increase in its retail rates; however, DE-Ohio will obtain a much lower retail base  
17           rate increase of only \$55.3 million under the Stipulation.

18                 Second, for purposes of any riders that require a rate of return, the  
19           Stipulation provides for the use of DE-Ohio's actual adjusted capitalization  
20           structure and a return on equity ("ROE") using the mid-point of the Staff's  
21           recommended return on equity (10.63%).

1 Third, the Stipulation provides for the distribution of the revenue increase,  
2 by tariff, which significantly mitigates the subsidy/excess reflected in the DE-  
3 Ohio's cost of service study.

4 Fourth, the Stipulation provides for a reasonable increase in the residential  
5 customer charge.

6 Fifth, the Stipulation benefits certain residential customers who require  
7 three-phase service by making such service available in areas beyond where it is  
8 currently offered.

9 Sixth, the Stipulation benefits all electric distribution customers by  
10 reducing depreciation rates as recommended in the Staff Report and as outlined  
11 by the OCC in its objections to the Staff Report.

12 Seventh, the Stipulation addresses all pole attachment and conduit  
13 occupancy issues.

14 Eighth, the Stipulation benefits all electric distribution customers by  
15 creating a new tracking mechanism, known as Rider DR, to recover prudent and  
16 reasonable storm restoration costs related to Hurricane Ike. Although such costs  
17 were incurred during the test period, Rider DR allows the recovery to be spread  
18 over a multi-year period, and provides a mechanism which can discontinue the  
19 charges once approved costs are fully recovered. The Stipulation further benefits  
20 customers by recommending a separate proceeding to set the rider recovery  
21 amount and determine whether or not the restoration costs were reasonable and  
22 prudent.

1 Ninth, the Stipulation benefits all customers by creating a new tracking  
2 mechanism, known as Rider UE-ED. This rider provides for the timely recovery  
3 of uncollectible expenses, including bad debt expense associated with Percentage  
4 Income Payment Plan ("PIPP") amounts no longer recoverable from the Ohio  
5 Department of Development ("ODOD") pursuant to their recent rule changes.

6 Tenth, the Stipulation benefits low-income customers by establishing two  
7 new programs: a low-income credit program that provides an incentive to stay off  
8 of programs such as PIPP, and a low-income weatherization measurement  
9 program. The low-income credit program provides for a \$4/month credit to  
10 electric customers who are at or below 200% of the federal poverty level. This  
11 particular program is designed to be offered to an expanded group of low income  
12 customers who are also in need of assistance but do not qualify for other programs  
13 that are limited to 150% or 175% of the federal poverty level. Additionally, to the  
14 extent less than 10,000 customers participate in this program, the remaining funds  
15 will be utilized to reduce the uncollectible rider previously described. As I  
16 discussed above, the uncollectible expense rider also includes the uncollectible  
17 expense associated with PIPP that will no longer be recoverable through the  
18 Universal Service Fund due to pending ODOD rule changes. This credit creates  
19 an additional benefit to all customers because any unsubscribed funds will go to  
20 offset the dollars to be collected in the Rider UE-ED. The low-income  
21 weatherization program provides \$200,000 per year to be focused on critical  
22 home repairs and energy efficiency for low-income all-electric residential  
23 customers. The \$200,000 per year is separate and independent from what the

1 Company currently offers through its other energy efficiency Rider SAW. The  
2 program will be administered through PWC, which will use its expertise in  
3 weatherization and home repairs to test and measure different forms of critical  
4 home repairs to evaluate efficiency impacts. These repairs will focus on DE-  
5 Ohio's service territory. PWC will provide annual reports to DE-Ohio and all  
6 interested stakeholders including DE-Ohio's energy efficiency collaborative. It is  
7 anticipated that the results will be used to assist not only enhance existing energy  
8 efficiency offerings but possibly lead to new programs as well.

9 Eleventh, the Stipulation benefits all residential customers by allowing  
10 residential customer deposits to be funded over a three-month period. Due to the  
11 requirements to implement this provision, such benefit may not be offered until  
12 December 31, 2009.

13 **Q. DO YOU BELIEVE THE STIPULATION MEETS THE THREE-PART**  
14 **TEST REGARDING CONSIDERATION OF PARTIAL STIPULATIONS**  
15 **AND SHOULD BE ADOPTED BY THE COMMISSION?**

16 A. Yes, I do.

17 **Q. DOES THE STIPULATION RESOLVE ALL OF THE ISSUES IN THIS**  
18 **PROCEEDING?**

19 A. Yes. This Stipulation, which is signed by Parties representing all stakeholder  
20 interest, resolves all of the issues in this proceeding. All Parties to the stipulation  
21 actively participated in the settlement process and represents a reasonable  
22 compromise and fair balance of all competing interests.

23 **III. CONCLUSION**

1    **Q.   DOES THIS CONCLUDE YOUR SETTLEMENT SUPPORTING**  
2           **TESTIMONY?**

3    **A.   Yes**